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DIA and DOS review(s) completed.

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FAR EAST

1. Macao removes official restriction on trade with Communist China:

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The governor of Macao recently admitted to an American consul from Hong Kong that he was no longer restricting the re-export of strategic goods to Communist

China. In fact, he said, the colony's depressed finances forced him to encourage trade.

The governor also stated that Chinese pressure to buy petroleum and other goods is now negligible and implied that Macao will have to promote sales to keep from being bypassed entirely.

Comment: The Chinese Communists, who have been increasingly successful in procuring their strategic imports directly from Western countries of origin or from the Soviet bloc, are also bypassing Hong Kong. Despite the reduced importance of the colonies to Peiping as sources of strategic supplies, there is no indication of military moves against either.

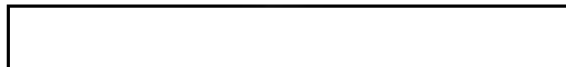
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✓ 3. France may be forced to reconsider Indochina policy:

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A French Foreign Ministry spokesman told Ambassador Dillon on 22 October that Paris will be compelled to reconsider its Indochina policy if Vietnam is determined to reject the

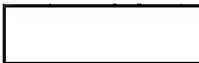
French Union in its present form. He added that France contemplated no change in the form of the union when it issued the 3 July notes to the Associated States.

Comment: The interest of both the French and Vietnamese governments in maintaining a working relationship is such that some formula acceptable to both will probably be worked out without any drastic revision of French Indochina policy. Negotiations, however, can be expected to be protracted and complicated.

NEAR EAST - AFRICA

4. Comment on Arab-Israeli troop movements:

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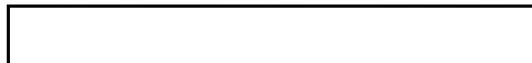
Despite the charges and countercharges of excessive military activity, caused by troop movements on both sides of the Arab-Israeli frontier, there is no indication that either the Arabs or the Israelis soon intend to engage in open warfare.

Israeli army maneuvers have resulted in the deployment of five brigades in the coastal area near the central Jordanian frontier, though not in Jerusalem or in the corridor leading to it. Arms and ammunition have reportedly been dropped to Israeli troops on the demilitarized Mt. Scopus area, which thus becomes a new point of tension.

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On the Arab side, the US Army attache in Damascus reports that by 24 October the bulk of the Syrian army was expected to be in positions near the Israeli frontier. Since the Kibya incident on 14 October the Arab Legion has moved considerable ground support to West Jordan. The embassy in Amman points out, however, that these troops are too far removed from the frontier and the disputed Mt. Scopus area outside Jerusalem to represent any threat to the armistice agreement.

There is no evidence that Iraq has sent any forces to Jordan.

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EASTERN EUROPE**6. Conant sees USSR emphasizing role of East German government:**

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Ambassador Conant points out that the increased emphasis on the role of the East German government, apparent in recent Soviet notes on a four-power conference,

is reflected also in communications delivered to Western authorities in Berlin. Conant believes that these tactics are designed to confront the Allied and West German authorities with the need of dealing directly with the East German government and that any refusal to do so will be exploited as proof of a deliberate attempt to block progress toward German unification.

Comment: This trend can be traced back to 17 August when Soviet officials authorized the East German government to issue West Berlin trade permits. On 1 September and 3 October Soviet High Commissioner Semenov proposed direct East-West German discussions for abolishing interzonal passes, and on 16 October came a Soviet announcement that the East German government had been authorized to issue such passes.

Finally, Soviet officials on 21 October answered a Western proposal that East-West Berlin telephone communications be resumed with the suggestion that the two city governments discuss the issue.

WESTERN EUROPE**7. Italian troop movements into Zone A unlikely without Allied approval:**

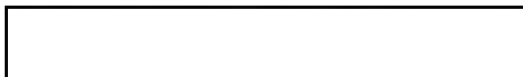
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According to US military officials, the British in Trieste have been approached by Italian officials to determine whether Anglo-American forces would defend Zone A against Italian troops entering without prior agreement. The head of military intelligence of the Italian V Corps visited Zone A in civilian clothes on 21 October.

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Comment: It is unlikely that Italy would move its troops into Zone A without specific permission from Britain and the United States, since such a move would jeopardize its chances of a favorable settlement of the Trieste issue.

No reports of violations of the frontier by the Yugoslavs have been received from non-Italian sources.

✓ 8. Early French Assembly vote on Saar convention feared:

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Ambassador Dillon in Paris reports that ratification of the French-Saar conventions by the National Assembly on 10 November would hamper subsequent French-German negotiations on the Saar. Although Premier Laniel agrees that action should be postponed, Foreign Minister Bidault, who wields the greater influence, reportedly believes that the conventions represent a move toward Europeanization of the Saar and that interference with this scheduled Assembly debate would damage the government's effort to obtain EDC ratification.

Dillon adds that both Laniel and Bidault are too harassed at present by the Indochina debate to devote attention to the Saar question.

Comment: Ratification of the French-Saar conventions within the next two weeks would cause a considerable anti-French reaction in Germany, especially among prominent members of Adenauer's coalition. This would tend to limit Adenauer's ability to offer concessions in the coming Saar talks.

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